

# Survey on Credit Supply

(Trends in 1<sup>st</sup> Quarter 2020 & Outlook for 2<sup>nd</sup> Quarter 2020)



STATISTICS DEPARTMENT  
CENTRAL BANK OF SRI LANKA

The Credit Supply Survey covers all Licensed Commercial Banks (LCBs) and Licensed Specialised Banks (LSBs), from which information on all lending categories are obtained.

Indices are calculated as 'Diffusion Indices', that take values between -100 and 100, by weighting responses of the licensed banks using exposure of each bank to Total Gross Loan Portfolio of the banking sector.

## Executive Summary

### • Willingness to lend decreased at a slower pace

Banks' willingness to lend decreased at a slower pace in 2020 Q1 compared to 2019 Q4, notably in SME and SOE categories. Willingness to lend is expected to decrease significantly in 2020 Q2 due to the additional pressure on the banking system amidst the impact of COVID-19 pandemic.

### • Demand for loans increased at a higher pace

Demand for loans increased at a higher pace in 2020 Q1 compared to 2019 Q4, due to increase in demand from all lending categories except SME category. However, demand for new loans is expected to decrease in 2020 Q2 with slowdown in business expansions and as customers prefer to defer existing loans over applying for new loans.

### • Number of non-performing loans (NPL) increased at a higher pace

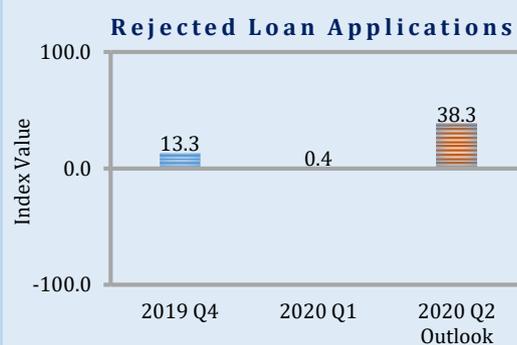
Number of NPL increased at a higher pace in 2020 Q1 compared to 2019 Q4 and it was observed across all lending categories. NPL is expected to increase further in 2020 Q2 with the expectation of slowdown in economic activities owing to the impact of COVID-19 pandemic.

### • Number of rejected loan applications increased at a slower pace

Number of rejected loan applications increased marginally in 2020 Q1 compared to 2019 Q4, due to increase in rejections observed solely in SME category. However, rejections are expected to increase in 2020 Q2 at a higher pace across all lending categories in line with the decrease in willingness to lend in 2020 Q2.

## Key to Interpretation

- **Index value > 0 : increase**
  - **Index value < 0 : decrease**
  - **Index value = 0 : unchanged**
- on quarter-on-quarter (Q-o-Q) basis**



## Willingness to lend decreased at a slower pace

### Willingness to Lend



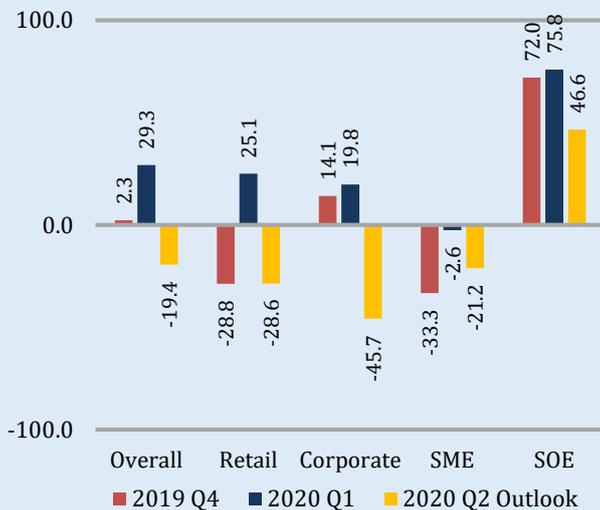
### Overall Willingness to Lend 2018 Q4 - 2020 Q1



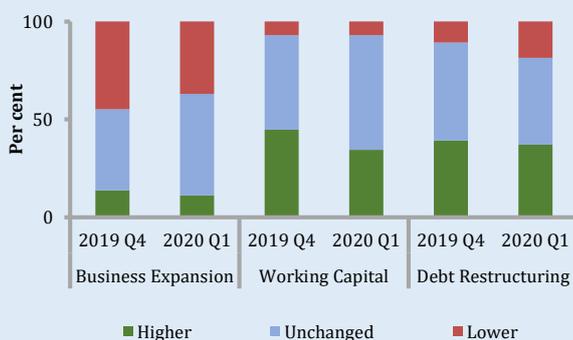
- Overall willingness to lend decreased at a slower pace in 2020 Q1 compared to 2019 Q4, and this trend was notable in SME and SOE categories.
- Further, this was the lowest decrease in willingness to lend reported since 2018 Q4.
- Banks decreased their lending by reducing the size of credit line, increasing collateral requirements and increasing loan covenants.
- However, expectations on willingness to lend indicates a significant decrease in 2020 Q2 compared to 2020 Q1 due to the additional pressure on the banking system amidst the slowdown in economic activities during 2020 owing to impact of COVID-19 pandemic.

## Demand for loans increased at a higher pace

### Demand for Loans

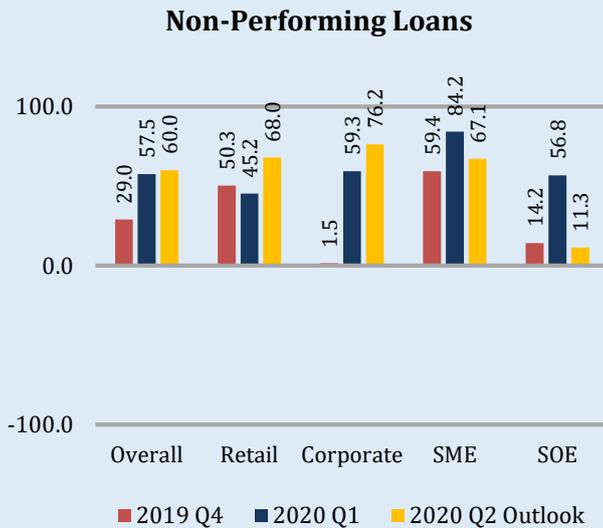


### Financial Needs of the Borrowers in Corporate Sector



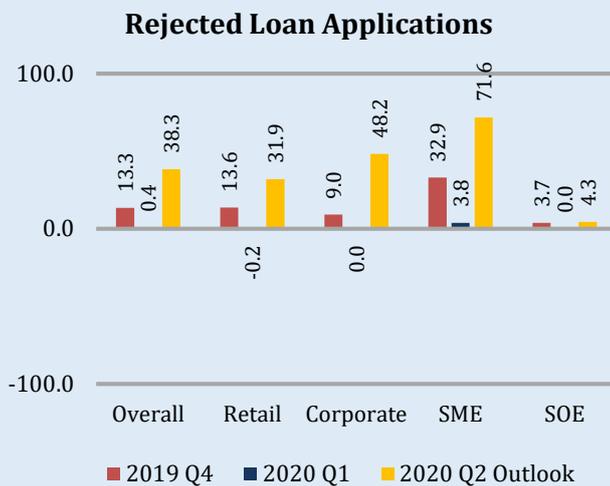
- Overall demand for loans increased significantly in 2020 Q1 compared to 2019 Q4.
- Demand for loans in retail, corporate and SOE categories recorded an increase, while that of SME category recorded a decline.
- Loans demanded by the corporate category for the purposes of working capital and debt restructuring showed an increase in 2020 Q1, while loans demanded for business expansions observed a decline.
- However, demand for loans is expected to decrease in 2020 Q2 compared to 2020 Q1 with the expectation of slowdown in business expansions and as customers prefer to defer existing loans over applying for new loans.

## Number of non-performing loans (NPL) increased at a higher pace



- Overall number of NPL increased at a higher pace in 2020 Q1 compared to 2019 Q4 and this trend was observed across all lending categories.
- Respondents cited that the asset quality has deteriorated with the increase in credit risk due to impact of COVID-19 pandemic.
- Number of NPL is expected to increase in 2020 Q2 compared to 2020 Q1, at a higher pace, with the expectation of slowdown in economic activities owing to impact of COVID-19 pandemic.

## Number of rejected loan applications increased at a slower pace



- Overall number of rejected loan applications increased marginally in 2020 Q1 compared to 2019 Q4.
- This was due to increase in rejections observed solely in SME category.
- However, inline with the expected decrease in willingness to lend in 2020 Q2, banks expect an increase in rejected loan applications, at a higher pace, across all lending categories in 2020 Q2 compared to 2020 Q1.